Pepsi-Cola Company Annual Report

1963

EXECUTIVE OFFICES
500 Park Avenue, New York, New York 10022

FIELD SERVICE OFFICES
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Address all communications to:
Secretary, Pepsi-Cola Company
500 Park Avenue, New York, New York 10022

TRANSFER AGENTS
The Marine Midland Trust Company of New York
The First National Bank of Jersey City
Harris Trust and Savings Bank (Chicago, Illinois)

REGISTRARS
The Chase Manhattan Bank, New York
The First National Bank of Chicago

ANNUAL MEETING
The Annual Meeting of our Stockholders, which is held each year at the Company's home office at 100 West Tenth Street in Wilmington, Delaware, will be held there this year at 2 p.m. (E.D.T.), Wednesday, May 6, 1964.

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Board of Directors

Charles Allen, Jr.
Herbert L. Barnet
Sheldon R. Coons
Thomas Elmezzi
James Felt
Harry E. Gould
Christopher E. Holzworth
Donald M. Kendall
Milward W. Martin
Don G. Mitchell
J. Lincoln Morris
Dr. Louis A. Rezzonico
Joan Crawford Steele
George C. Textor

Administrative Officers

Herbert L. Barnet
Chairman of the Board

Donald M. Kendall
President and Chief Executive Officer

Thomas Elmezzi
Executive Vice President

Financial Officers

Herman A. Schaefer
Vice President, Finance

Adolph Krieger, Jr.
Administrative Vice President and Controller

John R. Allison
Treasurer

Secretary

Harold E. Rome

Principal Marketing Officer

Peter K. Warren
Vice President, Marketing and Operations

Donald M. Kendall, Herbert L. Barnet

To the Stockholders of Pepsi-Cola Company:

In 1963 our sales and earnings both at home and abroad broke all records in the history of Pepsi-Cola Company. On sales of $218,539,715, we earned $16,145,500 as compared with 1962 sales of $191,630,223 and earnings of $15,412,389. This is $2.46 per share, based on 6,556,735 shares outstanding on December 31, 1963, as compared with $2.36 a share for 1962, the latter based on 6,522,905 shares outstanding on December 31, 1962.

Thus we added a new chapter to a long record of growth which even in a nation where commercial progress is commonplace, has been outstanding. Since the early 1930s, when it was a small organization of a few people selling a single product in a single package to a limited number of people in the United States, and earning very small profit, Pepsi-Cola Company has swept upward to a world-wide business selling various products in 135 packages to 105 different nations and earning the sums reported above. Still, we have by no means reached the sales or profit levels the future offers and we anticipate.

During the year much of our growth came in areas which only a few years ago were not a part of our business—new packages, like the 16-ounce bottle, cans, and transfer tanks; new countries and new markets opened overseas; and new products. Patio Diet Cola, introduced for the first time in 1963, moved swiftly into many franchises and rose rapidly in public acceptance. TEEM, the lemon-lime drink, continued its sales growth. The Company's wholly owned bottling subsidiaries operating plants in 14 major cities of the United States enlarged their contribution to profits.

Great growth in a changing world from a simple to a complex business has brought Pepsi-Cola Company to a future bright with promise and opportunity. Such growth also indicated the wisdom of strengthening the Company organization to seize and pace that future. In response, therefore, to the requirements of growth and the opportunities ahead, in September of 1963 the Board of Directors significantly strengthened the directive management of the Company.

To fill the post of Chairman of the Board, which had remained unoccupied since the death of Alfred N. Steele in 1959, the Board elected the undersigned Herbert L. Barnet, who had served as President since 1955.

To succeed him as President and Chief Executive Officer, the Board elected the undersigned Donald M. Kendall, who for the past six years had been President of Pepsi-Cola International, Ltd.

To the post of Executive Vice President, which had also been unoccupied since 1960, the Board elected Thomas Elmezzi, promoting him from Senior Vice President in Charge of Operations.

In addition to this triple strengthening of top general management, the Company placed in specialized, world-wide authority men of outstanding records in the growth of Pepsi overseas, chief among them Peter K. Warren, formerly Marketing Director of Pepsi-Cola International, who was made Vice President for Marketing and Operations; and Herman A. Schaefer, who was made Vice President, Finance. One of the nation's most successful Pepsi-Cola Bottlers, James B. Somerall, was made President of Pepsi-Cola Metropolitan Bottling Company, Inc.; and John R. Allison was brought into the Company as Treasurer.

The old division of the organization into domestic and international groups was discontinued, and direction against world-wide opportunity unified.

By year's end, the wisdom of thus strengthening the organization was already strongly evident in new programs, directions, and emphases.

Over both the short period and the long period we have a splendid record of growth, but our future prospects for important growth in sales and profits are bright indeed. With the opening of many new markets overseas still ahead of us, with populations growing, with a notably strengthened organization flexible to respond alertly to changing public preferences in products and packaging and having unified authority and direction, with a principal product whose growth in popular acceptance is legendary, and with newer products giving shining promise of large sale, we intend to respond vigorously and decisively to every opportunity for growth, in old products or new, everywhere on the globe.

Herbert L. Barnet
Chairman of the Board

Donald M. Kendall
President and Chief Executive Officer

Ten-year comparison Pepsi-Cola Company and Consolidated Subsidiaries

Financial Results

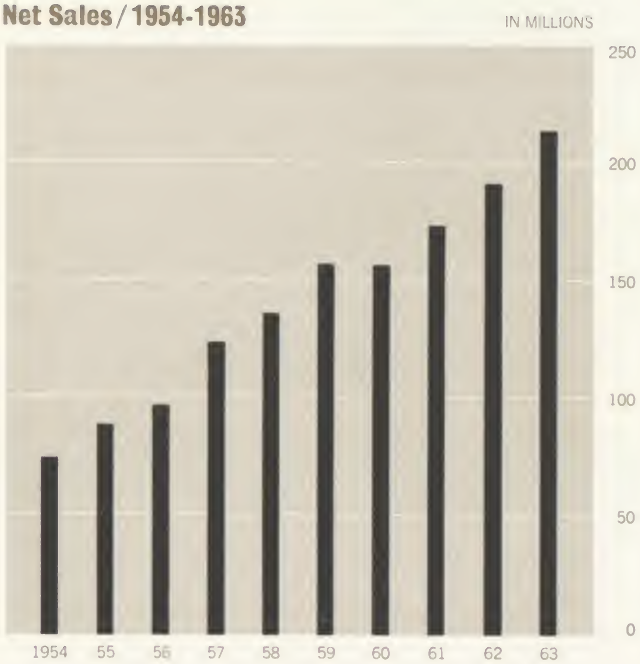
	Net Sales	Net Income	Earnings Per Share	Dividends	Dividends Per Share	Shares Outstanding
1963	$218,539,715	$16,145,500	$2.46	$9,153,865	$1.40	6,556,735
1962	191,630,223	15,412,389	2.36	9,123,142	1.40	6,522,905
1961	173,854,426	14,368,035	2.21	9,109,755	1.40	6,509,055
1960	157,672,258	14,180,705	2.18	9,052,690	1.40	6,495,955
1959	157,769,109	13,873,843	2.17	7,833,818	1.25	6,384,415
1958	136,819,847	11,547,954	1.88	7,238,496	1.20	6,138,755
1957	120,330,773	9,559,675	1.61	6,220,528	1.05	5,926,205
1956	97,035,805	8,884,787	1.50	5,915,830	1.00	5,918,655
1955	88,970,600	9,456,766	1.60	5,897,090	1.00	5,909,005
1954	74,200,232	6,212,690	1.07	3,769,493	.65	5,813,155

Financial Position

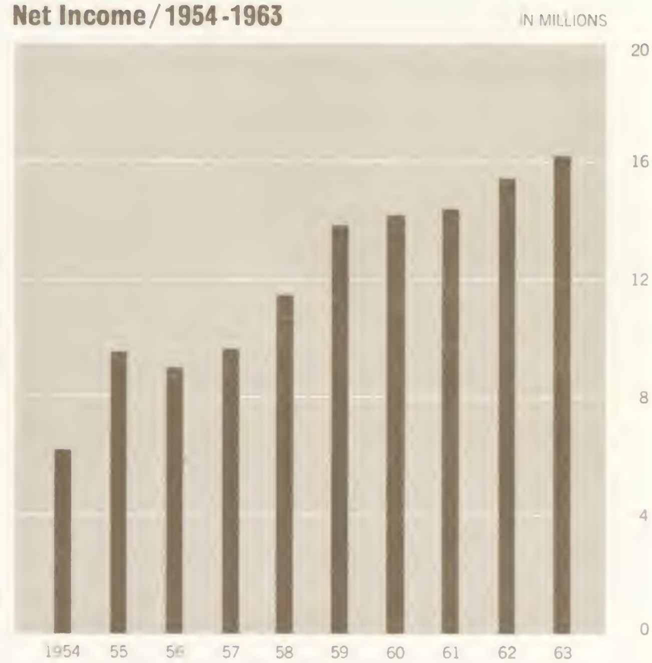
	Current Assets	Current Liabilities	Working Capital	Fixed Assets —Net	Other Assets	Long Term Indebtedness and Customers' Deposits	Reserve for Foreign Activities	Stockholders' Equity	Book Value Per Share
1963	$77,970,497	$36,509,332	$41,461,165	$53,810,086	$17,374,402	$22,519,071	$3,147,603	$86,978,979*	$13.27
1962	67,225,677	29,103,619	38,122,058	51,109,149	15,885,887	23,056,301	2,963,354	79,097,439*	12.13
1961	70,665,032	26,279,229	44,385,803	42,818,073	13,595,870	24,578,536	4,098,870	72,122,340*	11.08
1960	63,176,165	19,031,454	44,144,711	39,770,876	11,315,498	24,912,379	4,143,172	66,175,534*	10.19
1959	58,681,888	23,430,599	35,251,289	37,742,852	12,712,000	22,516,154	4,595,467	58,594,520*	9.18
1958	36,252,272	19,019,387	17,232,885	34,049,468	13,637,942	12,804,641	3,104,950	49,010,704*	7.98
1957	33,748,837	19,396,554	14,352,283	31,839,309	11,777,999	12,394,706		45,574,885	7.69
1956	32,018,582	14,566,258	17,452,324	24,323,023	6,390,925	6,002,051		42,164,221	7.12
1955	32,803,026	14,300,372	18,502,654	20,103,341	5,180,719	4,692,600		39,094,114	6.62
1954	29,309,566	11,227,522	18,082,044	17,172,325	4,305,246	4,939,642		34,619,973	5.96

*After reduction attributable to Reserve for Foreign Activities

Net Sales / 1954-1963



Net Income / 1954-1963



Working Capital / 1954-1963

Stockholders' Equity / 1954-1963

The market for Pepsi is all people everywhere. Pepsi is a happy preparation for a housewife's homecoming, a welcome interval in the day's work, a familiar refreshment in settings far removed from its birthplace.

Sales Activities

Reported case sales for 1963 were the highest in history, as they have been for 13 consecutive years. To achieve this record with the total market of all people everywhere, we gave appeal and impact to the broad spectrum of everything people see about Pepsi-Cola—packaging, advertising, promotion, equipment, public relations, and the other activities which create sales.

Advertising

During 1963, the Company intensified use of its advertising theme, *Now It's Pepsi—For Those Who Think Young*. At the end of its first full year of use (1961), research interviews conducted showed that more than 60 per cent of people identified the theme with Pepsi-Cola; by the end of 1963 it was almost universally so identified.

In its selection of advertising media, the Company leaned more heavily than ever toward the one which has shown the strongest selling effectiveness for Pepsi, television. Fresh, award-winning radio and television spot commercials featured the distinctive singing voice of Joanie Sommers and musical arrangements of Mitchell Ayres. Full-minute Pepsi films were shown during 21 high-rating network shows, including *Ben Casey, The Nurses, Alfred Hitchcock, Password, Jack Paar, Naked City, Wagon Train, 77 Sunset Strip, Twilight Zone,* and others. In addition, Pepsi was again a participating sponsor of the most-watched program of each year, the telecast of the Miss America Pageant from Atlantic City, seen by more than 60 million viewers annually. Miss Joan Crawford and Miss Mary Ann Mobley, Miss America 1959, were featured in two of the Pepsi commercials used.

Full-page four-color Pepsi ads appeared monthly

On television, on radio and in print, a blend of contemporary advertising techniques dramatically reinforces Pepsi-Cola's enormous popular appeal.

in these most-read national magazines: *Life, Look, Saturday Evening Post* and *Progressive Farmer;* versions of these ads ran monthly in *Ebony,* the leading magazine for Negroes. Special advertisements were also directed to the Youth Market.

Pepsi-Cola was again among the principal national users of network radio. In concentrated periods totaling 12 weeks during heavy-selling seasons, some 1,013 Pepsi commercials were broadcast.

The continuation in 1964 of this advertising campaign calls for the largest investment in Pepsi-Cola history. Media to be used include 1500 newspapers, 400 TV outlets, 3,000 radio stations, and 16 national magazines, with an expanded schedule of outdoor postings.

Pepsi's overseas advertising was again built around a theme describing Pepsi-Cola as "The Big One" —in quality and in quantity. In other countries as in America, television proved itself the strongest, most dramatic means of reaching Pepsi consumers. In Argentina, Pepsi sponsored a 13-week series resembling the American panel programs; the final show in the series, which announced the winners of a Pepsi-sponsored promotion, drew the highest TV audience in the country's history. In Mexico, Pepsi-Cola was the sponsor of a 26-week cycle of *International Showtime,* as well as a heavy campaign of radio and TV spot commercials. In Japan, where 88 per cent of the population now owns TV sets, Pepsi-Cola sponsored telecasts of baseball from April through October, and ran 10,000 spot announcements in a nine-month period. In Venezuela, another nation in which television is extremely popular, Pepsi sponsored a *Teen-age Bandstand* program and a heavy radio-TV spot campaign. Television was also used effectively in such diverse areas as Italy, East Africa, the Middle East, Southeast Asia and Australia.


PEPSI
AKRON - YOUNGSTOWN
Potato Chips
A&P
SLICED BACON

Promotions excite consumer sales—and sometimes even contest-winners' jubilation—and also win the cooperation of dealers in large-volume outlets such as food stores and service stations.

Promotion

During the spring and summer the Company and groups of Pepsi-Cola Bottlers in eight states joined to conduct one of the most successful and highly publicized promotions in the soft drink industry's recent history. Called the *Shoppers' Sweepstakes,* and offering attractively sizable rewards to winners, it received wide television, newspaper, and national magazine coverage (in *Newsweek,* for one) because of the unusual, visually hilarious nature of the top local prize awards: "shopping sprees" against limited times in a supermarket of the winner's choosing, with the winner allowed to keep all the merchandise he could gather up and carry to the checkout counter within the allotted time. The state-wide award was a year's supply of groceries.

So successful was this promotion that a simultaneous nation-wide *Shopping Spree* campaign has been planned for the spring of 1964. Virtually all of the nation's Pepsi-Cola Bottlers will participate, with a total prize structure making it one of the biggest national promotions ever conducted by any product in any industry. Extensive national magazine and television advertising will support the promotion.

Public Relations

In August 1963, the Company made public its plans to sponsor at the 1964-1965 New York World's Fair the most ambitious public relations venture it has ever undertaken: a completely new ride designed by Walt Disney in the manner of his world-famous attractions at Disneyland. Visitors floating down canals in small excursion boats will tour many countries of an imaginative world, in which "audio-animatronic" figures representing children will sing and dance in native costumes against fanciful Disney-designed backgrounds symbolizing their homelands. Dedicated to the youngsters of the

The Company's participation in the Miss America program, the New York World's Fair, and Disneyland are among many public relations efforts which identify Pepsi with pleasant experiences.

world, the exhibit is entitled "It's a Small World —a Salute to UNICEF." Here, also, the U.S. Committee for UNICEF, the only organization related to the United Nations represented at the Fair, will feature a photographic exhibit depicting the needs and aspirations of the world's children. Because of UNICEF's participation, the Pepsi-Cola exhibit has been granted the special right to charge admission (for the ride portion only—visitors will have free access to UNICEF and to Pepsi refreshment stands).

The Company continues its participation in the Miss America program, Company and state Bottler groups awarding some $200,000 in educational scholarships annually to the winners of local and state pageants. Publicity and public approbation reflected credit upon the Company, Pepsi-Cola Bottlers, and the product for this civic-minded sponsorship. Additional awareness is derived from Bottler-sponsored public appearances by Miss America at such events of wide interest as the Orange Bowl, the Gator Bowl, the Cherry Blossom Festival, and many other events.

Pepsi-Cola associated itself with endeavors and projects of many national and local groups, in community development; in intercollegiate, professional, and amateur athletic programs; in scores of national conventions attended by thousands of customers and influential opinion leaders; and in many other activities. The absorbing exhibits shown each month in the Exhibition Gallery at the Company's Park Avenue World Headquarters in New York attracted wide and special attention. Pepsi's Academy-Award-winning Director, Joan Crawford Steele, brought favorable attention to Pepsi in many appearances. All Company publications won various high awards (the Company magazine—the Pepsi-Cola WORLD—in particular being frequently cited).

In many countries overseas, often in cooperation

Above: Annually, thousands visit the changing exhibitions at Pepsi-Cola's Park Avenue World Headquarters Gallery. Here, a school class listens in the "Classroom of Tomorrow" exhibit.

Below: Walt Disney, Mrs. Helenka Pantaleoni (President of the U. S. Committee for UNICEF), New York World's Fair Director Robert Moses, and Pepsi Chairman Herbert L. Barnet examine an early model of the Company's World's Fair exhibit.

Opposite page: Joan Crawford Steele, Director, in one of many appearances on behalf of Pepsi.

with the International Junior Chamber of Commerce, Pepsi assisted in outstanding community programs. Among these were such diverse and locally exciting projects as sponsoring the annual Amateur Golf Championship in the Philippines, the contest in Jamaica which produced the winner of the Miss World title in London, and the Soap Box Derby in Caracas, Venezuela; contributing stands to blind street peddlers of soft drinks before the town hall of a Mexican city; raising funds for fire-fighting equipment in Central America; erecting traffic signs bearing Pepsi-Cola advertising in various cities; acting as organizer and host of the annual Carnival in Porto Alegre, Brazil; and equipping Red Cross emergency booths for highways into Barcelona, Spain.

Fountain Sales

In 1963, at the nation's fountain outlets, Pepsi doubled its share of the on-premise cola market. Twice as many items of Pepsi-identified dispensing equipment were placed in outlets as during the previous year, and more than half the Pepsi-Cola Bottlers of the United States were authorized to manufacture and distribute Pepsi-Cola syrup under the Transfer Tank program pioneered by the Company (a five- or ten-gallon stainless steel container of fountain syrup is filled at the local plant, providing greater handling convenience in high-volume outlets than is possible with the traditional gallon jug).

New Products

In the spring of 1963, the Company introduced its new low-calorie cola product, Patio Diet Cola. Following initial introductions—often with personal appearances by Miss Debbie Drake, the popular television personality—this new product has quickly moved into 370 market areas containing over 77 per cent of the United States population. Subsequent

Patio Diet Cola is the preference of
many tastes, as TV personality
Debbie Drake reminds many audiences.

research studies have shown that its potential consumers belong to no special categories but are found in all, and that during the first year Pepsi and Patio Diet Cola sales complemented each other in the market.

The Company's lemon-lime product, TEEM, by year's end available in franchises serving nearly 70 per cent of the national population, continued to increase in sales and distribution. The subject of intensive examination by the Company's management, TEEM's financing and advertising support are being strengthened in order to realize the full potential of this popular product.

The Company's Patio line, containing 10 flavors, is now made available to approximately a third of the United States population by Pepsi-Cola Bottlers. An adjunct to Bottlers' main product line, it continued to show an anticipated rate of increase.

Packaging

Throughout the country, Pepsi products are available in the size, form and flavor demanded by the public taste. Introduction of a complete line of packages for Patio Diet Cola brought the total of various package elements for Company products to approximately 135. Patio Diet Cola's package elements include crowns; 7-, 8-, 10-, 12-, 16-, and 26-ounce returnable bottles; cartons for all these sizes (except 26-ounce); 12-ounce cans and 6-pack wraps; and (for one area) a non-returnable 16-ounce bottle with a paper label and a special wrap carrier.

The year also brought the increased use by Bottlers of various improved designs of 24-bottle plastic cases. Despite their higher initial cost compared to the familiar wooden shell, they are winning growing acceptance as an effective means of promoting "by-the-case" purchases by consumers.

In cups, cans, or fountain glasses, as in bottles, Pepsi-Cola goes where the people go or pass or stay—and the people respond.

Increased sales of Pepsi-Cola in one convenience package—cans—were so notable as to rise almost 50 per cent faster than sales of this package in the industry as a whole.

Merchandising Tools

Investment by Pepsi-Cola Bottlers in new merchandising equipment continued at a high level, the total of such purchases amounting to more than $23.3 million. Bottle-vending machines and cup vendors were both ordered in larger quantities than in the year before; 40 per cent more display stands were bought than in 1962. A relatively new merchandising tool, the can vendor, showed purchases 200 per cent higher than in the previous year.

A significant enlargement of distribution through vending outlets is anticipated in coming months as a greatly enlarged sales force for vending equipment, which came into being as part of the realignment elsewhere described in this report, takes to the field.

Expansion

During the past year, Pepsi-Cola Bottlers in the United States completed 17 new bottling plants with a total area of 890,000 square feet, representing an investment in land and buildings of more than $7.7 million. Outstanding among these new facilities were major installations in San Diego and New Orleans. Investments in new and more efficient machinery and equipment for these and existing facilities came to an additional $9 million.

Overseas, 17 new Pepsi plants were inaugurated, with a total area of 475,000 square feet, at an investment of $3.5 million. Their locations: Bologna, Naples, Turin and Verona, Italy; Messkirch, Germany; Plancoet, Les Ormes, and Montigny-le-Bretonneux, France; Sissach, Switzerland; Amman, Jordan; St. Pierre, Réunion Island; Beira and


Pepsi-Cola


PIZZERIA
FLORA
Pepsi-Cola

Whether in Jordan (far left), Naples (left), Buenos Aires (bottom, above), or anywhere else in the world, Pepsi-Cola honors the same high standard of quality, with traveling laboratories (top, above) available to aid any plant.

Namaacha (Lourenço Marques), Mozambique; Toowoomba, Australia; Narumi City (Nagoya), Japan; Castries, Island of St. Lucia; and Fortaleza, Brazil. Purchases of new machinery and equipment came to $4.2 million. Plant openings during the year brought to 289 the number of Pepsi-Cola plants that now serve 103 countries outside the U.S. and Canada. The product is now available to more than one billion people throughout the world.

Manufacturing

Concentrate manufacturing plants supplying Pepsi Bottlers throughout the world now number 23, including three each in the United States and Canada. During the past year, construction began on an additional plant in Bogota, Colombia; contract was let for a new plant in Japan; studies were begun for operations in Puerto Rico and Dallas, Texas (where plants may be erected during 1964); the Madrid, Spain, operation moved to larger quarters; and many existing facilities were expanded to accommodate increased demand.

In addition to developing a number of new and improved manufacturing processes designed to enhance product quality or result in production efficiencies, the Company's Manufacturing Division during the past year created several new product flavors for various world market areas with specific local requirements, among them special orange beverages for Australia and several specialized regional flavors for certain areas of the United States.

Research was conducted on low-calorie beverages with the following flavors: lemon-lime, orange, root beer, grape, and ginger ale. A continuing product research program is designed to produce the best possible formulation for all of the Company's low-calorie products.

Administration

In September 1963, the Board of Directors elected Herbert L. Barnet Chairman of the Board and named Donald M. Kendall to succeed him as President and Chief Executive Officer. At the same time, Thomas Elmezzi was elected Executive Vice President. Subsequently, Peter K. Warren was named Vice President in charge of Marketing and Operations. These realignments were in response to the increasingly demanding burdens and opportunities developed out of the Company's 13-year-long period of growth.

Mr. Barnet, who joined the Company in 1949, had been President since 1955.

Mr. Kendall brought to his new responsibility 16 years of outstandingly successful marketing and management experience in the Company; he had sold Pepsi-Cola from outlet to outlet, headed its sale to all national accounts, served as Vice President in charge of Marketing for the United States, and for the six years prior to becoming Chief Executive Officer had been President of Pepsi-Cola International, Ltd., in which capacity he directed an operation which doubled the number of its plants, tripled its sales, and multiplied its earnings five times over.

Mr. Elmezzi, whose record in the Company spans three decades, was promoted from Senior Vice President in charge of Operations, and for many years had been in charge of Manufacturing.

Mr. Warren, now directing the marketing of the Company's products throughout the world, has spent 13 years in the Company, the last several as Vice President in charge of Marketing for Pepsi-Cola International, Ltd.

Shortly after becoming President, Mr. Kendall integrated the domestic and foreign operations of the Company to provide uniform and single direction world-wide in such key areas as marketing, finance, research, technical services, and advertising, among others. In addition, to provide overseas operations with a greatly strengthened and closer influence from executives at the highest level, these operations were divided and organized into geographic divisions, each directed by an experienced veteran operating from the Company's World Headquarters, drawing on all the strengths thereof, and applying them against areas of a size permitting maximum development.

In December 1963, an application for a sugar beet acreage allotment in an eight-county area in New York State was filed with the Department of Agriculture, and in January of 1964 such an allotment was granted. Pepsi-Cola Company now plans to construct and operate a sugar refinery near Auburn, New York. Every effort will be made to have the plant operating by the fall of 1965, with an annual production capacity of 50,000 tons of refined beet sugar. By processing sugar beets at the end of the harvest season and functioning as a cane-sugar refinery the rest of the year, this facility is expected to serve as a supply source not only for a number of Pepsi bottling operations, but for the general Eastern sugar market as well.

Mr. Kendall announced that since the Company's world-wide marketing distribution and know-how are easily adaptable to stimulate the growth of certain types of products now in need of such facilities, the Company is alert to potential mergers and acquisitions which would benefit Pepsi-Cola Company and its stockholders.

Accountants' Opinion

HASKINS & SELLS

Certified Public Accountants — *Two Broadway*
New York 10004

The Directors and Stockholders of
Pepsi-Cola Company:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its consolidated subsidiaries as of December 31, 1963 and the related statements of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the statements of consolidated income and surplus present fairly the financial position of the companies at December 31, 1963 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 6, 1964 — Haskins & Sells

Consolidated Balance Sheet *December 31, 1963 and 1962*

Pepsi-Cola Company and Consolidated Subsidiaries

Assets	**1963**	**1962**
CURRENT ASSETS:		
Cash (including time deposits—1963, $25,732,000; 1962, $15,405,000)	$ 43,515,804	$ 38,289,369
Notes and accounts receivable (less allowance for doubtful receivables—1963, $1,234,921; 1962, $855,480)	14,607,153	13,847,242
Inventories—at cost, not in excess of market:		
Finished, in-process, raw materials and supplies	18,025,990	13,395,543
Vending equipment held for resale	1,821,550	1,693,523
Total current assets	77,970,497	67,225,677
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	6,745,707	5,227,766
Investment in and advances to subsidiaries not consolidated	838,162	696,363
Other	549,643	663,496
Total miscellaneous assets	8,133,512	6,587,625
PROPERTY, PLANT AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization—1963, $37,394,724; 1962, $34,297,518)	39,584,092	38,049,075
Bottles and cases on hand and with trade (principally at estimated depreciated values)	14,225,994	13,060,074
Total property, plant and equipment—net	53,810,086	51,109,149
DEFERRED CHARGES:		
Prepaid insurance, taxes, etc.	1,291,006	1,329,615
Advertising materials and expenses	2,488,897	4,105,896
Other	2,558,445	595,896
Total deferred charges	6,338,348	6,031,407
TRADEMARKS, FORMULAS AND GOODWILL (less amortization)	2,902,542	3,266,855
TOTAL	$149,154,985	$134,220,713

Reference is made to the accompanying Notes to Financial Statements

Consolidated Balance Sheet *December 31, 1963 and 1962*

Pepsi-Cola Company and Consolidated Subsidiaries

Liabilities	**1963**	**1962**
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term indebtedness)	$ 3,817,399	$ 2,673,025
Accounts payable and accrued	18,302,769	12,831,724
Accrued taxes:		
United States and foreign income taxes	11,280,655	10,846,437
Other taxes	3,108,509	2,752,433
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	36,509,332	29,103,619
OTHER LIABILITIES:		
Long-term indebtedness (current installments included above):		
5¼% notes (payable in annual installments of $1,250,000 to 1973; the balance payable in 1974)	15,000,000	16,250,000
Other	537,140	779,156
Customers' deposits on bottles and cases	6,981,931	6,027,145
Total other liabilities	22,519,071	23,056,301
RESERVE FOR FOREIGN ACTIVITIES	3,147,603	2,963,354
CAPITAL STOCK AND SURPLUS:		
Capital stock—authorized, 7,500,000 shares of 33⅓¢ each; issued and outstanding at December 31, 1963, 6,556,735 shares	2,185,578	2,174,302
Capital surplus	12,275,894	11,290,145
Earned surplus	72,517,507	65,632,992
Total capital stock and surplus	86,978,979	79,097,439
TOTAL	$149,154,985	$134,220,713

Reference is made to the accompanying Notes to Financial Statements

Consolidated Income *for the years ended December 31, 1963 and 1962*

Pepsi-Cola Company and Consolidated Subsidiaries

	1963	1962
Net Sales	$218,539,715	$191,630,223
Cost of Sales	67,598,938	57,052,847
Gross Profit on Sales	150,940,777	134,577,376
Advertising, Selling, Shipping, General and Administrative Expenses	117,176,267	102,290,437
Profit from Operations	33,764,510	32,286,939
Other Income	2,924,688	2,743,047
Total Income	36,689,198	35,029,986
Income Charges:		
Interest on indebtedness	1,141,215	1,057,412
Losses arising from devaluation of foreign currencies	335,559	688,536
Other	769,795	774,399
Total	2,246,569	2,520,347
Income Before Income Taxes	34,442,629	32,509,639
Provisions for United States and Foreign Income Taxes:		
United States	12,570,000	12,450,000
Foreign	5,650,000	5,400,000
Total	18,220,000	17,850,000
Income After Provisions for Income Taxes	16,222,629	14,659,639
Adjustment for Foreign Activities	(77,129)	752,750
Net Income	$ 16,145,500	$ 15,412,389

Reference is made to the accompanying Notes to Financial Statements

Consolidated Surplus *for the year ended December 31, 1963*

Pepsi-Cola Company and Consolidated Subsidiaries

Earned Surplus

Balance, January 1, 1963	$65,632,992
Net income for the year	16,145,500
Total	81,778,492
Less:	
Dividends paid—cash ($1.40 a share)	9,153,865
Transferred to Reserve for Foreign Activities	107,120
Total	9,260,985
Balance, December 31, 1963	$72,517,507

Capital Surplus

Balance, January 1, 1963	$11,290,145
Excess of proceeds over par value of 33,830 shares of capital stock issued under stock option plans	985,749
Balance, December 31, 1963	$12,275,894

Reference is made to the accompanying Notes to Financial Statements

Notes to Financial Statements *December 31, 1963*

1. The consolidated financial statements for 1963 include the accounts of all active subsidiaries except the British subsidiary (which has been excluded since 1950).

The assets and liabilities of foreign subsidiaries have been translated into United States dollars at current rates of exchange, except that property, plant and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition; income and expenses (other than depreciation) have been translated at rates prevailing during the year.

The net current assets, total assets and total liabilities of consolidated foreign subsidiaries (other than Canadian subsidiaries), stated in terms of United States dollars, were $5,300,000, $35,600,000 and $11,200,000, respectively, at December 31, 1963.

The amount at which the Company's investment in the British subsidiary is carried is equivalent to that subsidiary's net assets.

2. It is the policy of the Company to exclude from consolidated net income and consolidated earned surplus the unremitted earnings of foreign subsidiaries, other than Canadian subsidiaries, by providing a Reserve for Foreign Activities. A transfer is made each year to or from the reserve representing (a) such subsidiaries' unremitted profits (before devaluation charges) less applicable charges for amortization of goodwill, and (b) losses arising from devaluation of foreign currencies. The adjustment to income for 1963 represents unremitted profits of $519,808 determined as in (a) above, less $335,559 of devaluation losses and $107,120 of income of a subsidiary, the losses of which in prior years exceeded this amount and were charged to consolidated income in those years.

3. The provisions for depreciation and amortization amounted to $6,150,000 in 1963 and to $5,700,000 in 1962.

4. The Company has entered into a preliminary agreement for the design, construction and equipping of a beet and cane sugar refinery in Cayuga County, New York. It is estimated that the total cost of the refinery project will be approximately $22,000,000.

5. The loan agreements relating to the 5¼% notes payable contain various restrictions including provisions relating to the maintenance of consolidated working capital of the Company and certain subsidiaries, and restrictions on the payment of dividends and the purchase of shares of the Company's capital stock. Of the consolidated earned surplus at December 31, 1963, approximately $20,000,000 was free of restrictions.

6. At January 1, 1963, under Stock Option Plans of 1955 and 1959, which were approved by the stockholders in 1956 and 1960, respectively, there were outstanding options to purchase 174,550 shares of the Company's capital stock and 55,250 shares were reserved for the granting of additional options. During 1963 options for 55,000 shares were granted for an aggregate option price of $2,853,562, options for 33,830 shares were exercised for an aggregate option price of $997,026, and options for 9,000 shares were cancelled, 6,500 of which became available for grant. At December 31, 1963 options were outstanding with respect to 186,720 shares having an aggregate option price of $8,095,690 and 6,750 shares were reserved for the granting of additional options.

Under the 1955 Plan options are exercisable within five years from the date of grant but no additional options may be granted. Under the 1959 Plan options must be granted at 100% of the highest market price on the date of grant, are cumulatively exercisable to the extent of 40% after three years and an additional 15% after each of the following four years, and expire after eight years.

7. The Company and its consolidated subsidiaries are lessees under leases having unexpired terms of more than three years which expire at various dates to 1992. The present minimum aggregate annual rental under these leases is approximately $1,900,000.

8. At December 31, 1963 the Company and consolidated subsidiaries were contingently liable as guarantors of loans, principally to various franchised Bottlers, aggregating approximately $5,100,000. Other guarantees by the Company amounted to $2,000,000.

9. Certain vending equipment acquired by Bottlers is purchased by them on the installment basis and financed by banks; unpaid balances due by Bottlers on such acquisitions amounted to approximately $17,800,000 at December 31, 1963. The companies have agreed to purchase such equipment, in the event of default by the buyers, for the unpaid balance.

10. The Company is defendant in an action instituted in the Supreme Court of the State of New York, alleging that the Company induced the Redevelopment Area Organization (Cayuga County) to breach an alleged agreement whereby one of the plaintiffs agreed to plan, finance, construct and operate a sugar-processing facility, subject to the granting of an acreage allotment by the United States Department of Agriculture, and the Redevelopment Area Organization agreed to support said plaintiff in this effort. Damages are claimed in amounts aggregating $12,700,000. The Company is advised that, in the opinion of its counsel, the Company will be successful in the defense of the action, and further that damages claimed are in any event grossly excessive.